



Department of State

AMERICAN EMBASSY KABUL

INCOMING TELEGRAM

FROM/ **STATE**
NBR: **011283**
DATE RECD: **1/17/76**

ACTION TO: **AMB**

INFO TO: **AMB**
DCM —
POL —
ECON —
CONS —
ADM —
B&F —
CRU —
DISP —
GSO —
PER —
RSO —
MSG —
DAO —
AID —
PAO —
DEA —
PC —
CHRON —

BRK

ACTION
TAKEN:

BY:

DECLASSIFIED

A/iss/PS, Department of State
E.O. 12958, as amended
Date: **10/11/2007**

Classification

R 160143Z JAN 76
FM SECSTATE WASHDC
TO AMEMBASSY KABUL 4695
BT

STATE 011283

AIDAC

E.O. 11652: GDS

TAGS:

SUBJECT: AID'S PROGRAM IN AFGHANISTAN

FOR AMBASSADOR ELIOT FROM ASSISTANT ADMIN NOOTER

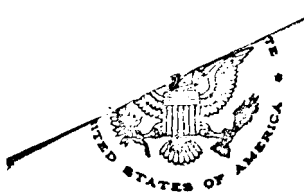
REF: KABUL 0107

1. I UNDERSTAND THE CONCERNS YOU EXPRESS IN YOUR REFERENCED MESSAGE AND AM GLAD TO HAVE AN OPPORTUNITY TO PLACE IN PERSPECTIVE OUR VIEWS ON THE SEVERAL ISSUES YOU RAISE. I HAVE DISCUSSED THESE VIEWS WITH DEPUTY ASSISTANT SECRETARY DUBS.

2. IN PUTTING TOGETHER THE NEW AID PROGRAM IN AFGHANISTAN, BOTH WE AND THE MISSION RECOGNIZED THAT THE GREATLY INCREASED MAGNITUDE OF FUNDING REQQTRED BEYOND THE PILOT STAGE OF ALL OUR PHASED PROJECTS WOULD PROBABLY NECESSITATE A SHIFT FROM GRANT TO LOAN FINANCING. OUR UNDERSTANDING IS THAT PAST DISCUSSIONS WITH THE GOA HAVE BEEN CONSISTENT WITH THIS EXPECTATION. ALTHOUGH THE GOA WOULD UNDERSTANDABLY WISH TO NEGOTIATE THE EASIEST POSSIBLE TERMS, THE NEED FOR THIS FINANCING TRANSITION SHOULD

NOT CONSTITUTE FOR THEM AN UNEXPCKTED CHANGE IN OUR POSITION NOR AN UNANTICIPATED HARDENING OF OUR CONDITIONS.

3. AID'S LOAN TERMS ARE HIGHLY CONCESSIONAL AND ARE NOT EXPECTED TO IMPOSE AN UNREASONABLE STRAIN ON THE AFGHAN ECONOMY OVER THE LIFE OF THE LOAN. AID LOAN TERMS FOR THE RURAL SCHOOL CONSTRUCTION PROJECT ARE NOT, TO THE BEST OF MY KNOWLEDGE, INCONSISTENT WITH THE PRACTICE OF MULTILATERAL AND MANY OTHER BILATERAL DONORS TO AFGHANISTAN FOR PROJECTS OF SIMILAR MAGNITUDE, EVEN THOUGH IDA LOANS CARRY A SLIGHTLY LOWER (I.E. 3/4 PERCENT) INTEREST RATE.



Department of State

AMERICAN EMBASSY KABUL

INCOMING TELEGRAM

FROM/ *57772*
NBR: *01/283*

DECLASSIFIED
A/1551/05, Department of State
E.O. 12958, as amended
Date: *10/11/2007*

[Redacted]
Classification

4. AGENCY POLICY DOES INDEED AFFORD SOME FLEXIBILITY WITH RESPECT TO GRANT VS LOAN FINANCING OF SOCIAL INFRA-STRUCTURE PROJECTS BUT THE LATITUDE FOR EXERCISE OF THIS FLEXIBILITY IS LIMITED BY THE VERY REAL FUNDING CONSTRAINTS UNDER WHICH WE MUST WORK. AS THE FUNDING REQUIREMENTS OF AN INDIVIDUAL PROJECT INCREASE, THESE CONSTRAINTS OF NECESSITY BECOME AN INCREASINGLY DOMINANT FACTOR. WITHIN THIS FRAMEWORK, LOAN FUNDING FOR THE AFGHAN SCHOOLS PROJECT IS NOT DISCRIMINATORY. I MIGHT POINT OUT, IN THIS REGARD, THAT WHILE AID DID GRANT-FINANCE ITS INITIAL RELIEF/RECONSTRUCTION ASSISTANCE TO BANGLADESH, THE BANGLADESH PROGRAM IS NOW PREPONDERANTLY LOAN-FINANCED WITH A GRANT COMPONENT (EXCLUSIVE OF CONTRACEPTIVES) SMALLER THAN THAT IN AFGHANISTAN. SIMILARLY, THE NEPAL PROGRAM IS SHIFTING TO LOAN FINANCING SINCE THE INDIAN RUPEES, WHICH PERMIT A HIGH DEGREE OF GRANT FINANCING, WILL NO LONGER BE AVAILABLE AFTER FY77

5. REGARDING THE SIZE OF THE AFGHANISTAN PROGRAM, OUR CONGRESSIONAL PRESENTATION WILL SHOW ROUGHLY DOL 4.0 MIL. IN GRANTS FOR FY 1977 EXCLUSIVE OF OPERATING COSTS. THIS REMAINS ONE OF THE AGENCY'S LARGEST GRANT PROGRAMS IN BOTH RELATIVE AND ABSOLUTE TERMS FOR A DEVELOPMENT ASSISTANCE COUNTRY. FROM THE GOA PERSPECTIVE, A REVIEW OF PROSPECTIVE PROJECTS FOR THE INTERIM QUARTER AND/OR FY 1977 (INCLUDING RURAL WORKS AND HELMAND DRAINAGE AS WELL AS RURAL SCHOOLS) INDICATES THE LIKELIHOOD OF AN OVERALL FY 1977 PROGRAM LEVEL SIGNIFICANTLY LARGER THAN FY-1976 AND FULLY CONSISTENT WITH THE HISTORICAL TREND. THIS EVIDENCE WOULD NOT APPEAR TO GIVE MISLEADING POLITICAL SIGNALS TO THE AFGHANS REGARDING THE U.S. POSTURE TOWARDS AFGHANISTAN.

6. SPEAKING MORE GENERALLY, I WOULD HOPE THAT RATHER THAN SEEKING A PREDETERMINED LEVEL, AID'S PROGRAM IN AFGHANISTAN CAN REMAIN RESPONSIVE TO THE AVAILABILITY AND REQUIREMENTS OF SOUNDLY CONCEIVED PROJECTS CONSISTENT, OF COURSE, WITH OVERALL AGENCY FUNDING CONSTRAINTS AND REALISTIC AFGHAN ABSORPTIVE CAPACITIES.

7. IN LIGHT OF THE ABOVE, THERE APPEARS LITTLE PROSPECT OF GRANT FUNDING THE SCHOOLS PROJECT BEYOND THE INITIAL FIRST-PHASE GRANT ALREADY MADE UNDER PRESENT CONSTRAINTS. AID IS, HOWEVER, REVIEWING THESE CONSTRAINTS AS THEY IMPACT ON RLDC'S DURING THE COMING WEEKS, AND IF ANY CHANGES EMERGE FROM THAT REVIEW WHICH WOULD AFFECT THE RURAL SCHOOLS PROJECT, WE WILL OF COURSE BEAR IN MIND YOUR PREFERENCE FOR GRANT FINANCING.

8. I HOPE THIS CLARIFICATION IS HELPFUL IN ALLAYING ANY CONCERNS THAT MAY HAVE ARISEN REGARDING AID'S CONTINUED SUPPORT OF AFGHANISTAN'S DEVELOPMENT. KISSINGER